

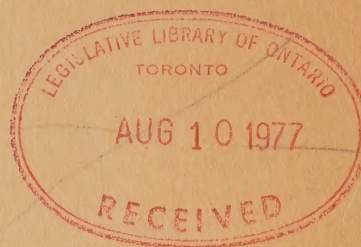
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Ontario

Ministry of Energy



MINISTRY SUBMISSION
TO
ROYAL COMMISSION
ON
ELECTRIC POWER PLANNING
PART TWO
Response to Question One
JULY 1976



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been forwarded in the required numbers to the
Royal Commission.

I. SCOPE OF SUBMISSION AND OVERVIEW

The Ministry of Energy and the Royal Commission on Electric Power Planning have agreed that the Royal Commission would put specific questions to the Ministry on which it considered that the Ministry's views would be helpful. This submission designated as Part Two, is in response to Question 1 and will describe the main structural components, processes, legislative and other policy parameters involved in electric power planning in Ontario. Questions 2 to 8 have been answered in a separate submission (Exhibit 13). In addition, Part Three, which provides responses to the written questions contained in the transcript of evidence from the Ministry of Energy's first appearance, May 18, 1976, and which presents Energy Supply/Demand Projections for Canada, is being forwarded to the Commission concurrently.

Question 1:

Indicate with reference to your legislation, your activities with respect to Ontario Hydro and electric power planning in this Province that you feel would pertain to this Commission's terms of reference. Include also the nature of any informal/formal communication with either Ontario Hydro, other government ministries, and/or other governments.

Because the Minister of Energy is responsible for the administration of The Power Corporation Act, and because there is a perceived need to bring together into a coherent whole

the many elements which make up the structure and processes of the Ontario Government as they relate to Ontario Hydro, this submission will also describe the role and place of Ontario Hydro within the Ontario Government, as well as describe the relationship of Ontario Hydro to the other components of the Ministry of Energy.

OVERVIEW

In the first half of the 1970's the Ontario Government instigated several studies which were concerned in one way or another with Ontario Hydro and the planning of the electric power system. Energy supply and demand, the organization and operation of Ontario Hydro and the relationship of the Ontario Government to its agencies have all been reviewed and recommendations made, resulting in an ongoing process of change both within Hydro and within the Government.

Two major changes in the allocation of responsibility for electric power planning have resulted from these studies. First, the relationship between the Government and Ontario Hydro has been redefined, clearly identifying the Government's responsibility for the overall policy direction of Ontario Hydro, assigning to the Ontario Hydro Board of Directors responsibility for operational matters, and also identifying the need for Government policy towards Hydro to be channeled

through a single organizational unit in Government. This redefinition reflects Ontario Hydro's importance in provincial affairs and ties the organization more closely to the policy planning processes of the government than was formerly considered necessary.

Second, a new Ministry of Energy has been established, focussing responsibility for energy matters within the government. The Minister of Energy is charged with the development of energy policy and with legislative responsibility for three major Government agencies, the Ontario Energy Board, Ontario Hydro and the Ontario Energy Corporation. This mandate reflects the Ministry form of organization, advocated by the Committee on Government Productivity and accepted by the Government, that a "Ministry" encompasses functions performed both by the departmental structure and by agencies of the Government.

This submission is concerned with the current allocation of responsibilities related to electric power planning, and with the policy parameters which have been developed within this legislative and organizational structure and which provide ground rules for electric power planning. In setting out this description, it is anticipated that the important operational and developmental functions of Ontario Hydro, which are conceived and approved within the framework outlined in this submission, will receive a greater degree of public understanding and acceptance.

A synopsis of the principal recommendations of recent studies as they relate to organizational responsibilities provides the rationale for the existing structure and electric power planning process.

The submission indicates how the role of the Ministry of Energy has evolved, how it is currently organized to discharge its responsibilities, and some of its significant achievements. Ontario Hydro's "role and place" are then explored with particular emphasis on the responsibilities of the Chairman, the Board of Directors and the President.

The legislative and non-legislative mechanisms through which policy is established and communicated to Ontario Hydro are then outlined. Major areas of policy guidance provided by the Government to Ontario Hydro are also described. Finally, two planning and decision-making processes are used to illustrate segments of the electric power planning system.

The basic organizational components of an effective system are now in place and provide a framework for the electric power planning process. However, organizational change of the magnitude that has been described takes time to settle and to develop new procedures and co-operative relationships. Many new responsibilities have been created, or old ones redefined, new roles, responsibilities and frequent change is a daily feature of the system. Much attention has been given to the design of the policy planning structure and process to ensure that it has the potential to perform the complex task of electric power planning.

The Royal Commission on Electric Power Planning provides a means to consolidate the work done to date, to suggest ways of achieving the potential that exists in the new planning system, as well as to review and report on the general and specific issues which arise in the electric power planning system.

II. WHY A ROYAL COMMISSION?:

There is much to commend the decision to establish the Royal Commission at this particular time. Over the past several years public expectations and concerns with respect to the environment, land use, public participation and future supply and cost of energy have resulted in disequilibrium for public policy making for many institutions, including Ontario Hydro.

Several highly significant inquiries and reports relating directly or indirectly to aspects of electric power planning in Ontario were initiated by the Government during this period. As the Royal Commission noted in its first report these include:

1. The Report of the Ontario Advisory Committee on Energy (1971-72) which reviewed the future energy requirements and supply for Ontario.
2. The Reports of Task Force Hydro (1972-73) which examined the operations of Ontario Hydro.
3. The Reports of the Solandt Commission (1972-75) which inquired into, and made recommendations for specific 500 Kv transmission routes.
4. The Reports of the Ontario Energy Board which were concerned with system expansion (1974) and rate review (1974-75).

5. Report 556SP (February, 1974) - a report which indicated Ontario Hydro's long-range planning concepts and included several alternative future scenarios.
6. The Select Committee on Hydro Rates which was established to review Ontario Hydro's 1976 bulk power rates.

While the above are not the only relevant studies which bear on Ontario Hydro, the list does indicate the interest in and scrutiny of that organization during the past few years.

In 1973, the Ministry of Energy itself was established.

With all of this activity, with these Reports, and with the Ministry of Energy in place as the principal factor in the structure and process for public policy-making in the energy field, what motivated the Government to choose the instrument of a Royal Commission to study electric power planning, and what are its expectations?

There were two basic motivations. The first is suggested by the Commission itself in its first report when it noted that, "the shape and growth of our future society is inextricably bound up with the future utilization of energy." (1)

(1) R.C.E.P.P., First Report, May 1976, p.9

Because the subject of electric power planning is so complex, and so inter-related with other important aspects of our lives, the Commission was established both to assemble the necessary information and to provide a forum for public participation. While these assignments probably could have been tackled through other mechanisms, the subject's scope, potential and impact suggested the bringing together of resources and talents in this special way.

The second motivation was to establish a new equilibrium among the many public and governmental demands on, and objectives for, electric power planning. It is expected that the Royal Commission will build upon the work of these earlier inquiries and provide a basis for Ontario Hydro to fulfill its responsibilities with renewed public confidence.

Moreover, it is the Government's expectation that the Royal Commission will, through its hearings and analysis, develop a perspective bearing on a host of policy issues which are directly and indirectly related to electric power planning. This perspective, and the specific advice of the Commission, will be of fundamental assistance to the Government in its consideration of public policy.

It is also the expectation that the Royal Commission through its public review and deliberations, will help the Government to achieve the full potential of its newly developed structure and process of electric power planning.

In short, the Royal Commission provides the Government with a mechanism which will reflect on past challenges and achievements, on current and emerging issues, and which will make recommendations on ways to achieve a new equilibrium for electric power planning in Ontario.

III. ONTARIO HYDRO AND THE STRUCTURE OF GOVERNMENT

This section reviews past recommendations and Government actions affecting the structure and processes of the Ontario Government and Ontario Hydro's role and place in them.

A. The Ministry Concept

In 1969, the Ontario Government established the Committee on Government Productivity (C.O.G.P.) to enquire into all matters pertaining to the management of the Government of Ontario.

In its Interim Report No. 3, C.O.G.P. made recommendations covering the structure of the Government at the Ministerial and Cabinet level.

C.O.G.P. introduced the "ministry" concept to supersede the old organizational unit of the department. ⁽¹⁾

A ministry would include, where appropriate, a departmental structure together with its related boards, agencies and commissions. Ministers would have responsibilities as Chief Executives of Ministries. While a Minister's main concern would be the management of the implementation of policy in his portfolio, he would also play the principal role in the development of its policy. C.O.G.P. went on

⁽¹⁾ C.O.G.P. Interim Report No. 3, December 1971, p.17

to note that each Minister would be responsible to the public and to the Legislature for the effective carrying out of Government policy by his Ministry.

C.O.G.P.'s recommendations were accepted by the Government of Ontario.

In its Summary Report, C.O.G.P. described the Ministry Office as an integrative mechanism within a ministry:

"One way to achieve integration within a ministry is to establish a Ministry Office headed by a Minister and supported by a small and highly capable staff. It would advise the Minister on policy and priorities and would co-ordinate and evaluate programs.

One key implication of a Ministry Office is that, by giving the Minister an added evaluation capability, it would provide a further means of decentralizing many decisions on operating or administrative matters to those individuals within the operating program or agency responsible for program implementation." (1)

Under this concept, this submission is the product of the Ministry Office of the Ministry of Energy.

(1) C.O.G.P. Report No. 10, March 1973, pp.12-13

B. The Position of Ontario Hydro - Task Force Hydro's View

In 1971, C.O.G.P. was asked to review the function, structure, operation, financing and objectives of the Hydro Electric Power Commission of Ontario. To accomplish this assignment, C.O.G.P. set up Task Force Hydro. By the time Task Force Hydro made its recommendations, the principles of C.O.G.P. Interim Report No. 3 had been accepted by the Government. Task Force Hydro, therefore, concluded that the structural distinction proposed by C.O.G.P. between policy-making and program delivery functions should be applied in the case of Ontario Hydro. ⁽¹⁾ Taking an historical perspective, Task Force Hydro also concluded that

"while Hydro and the (municipal) utilities have had responsibility from the beginning for the delivery system, Government has reserved for itself the responsibility for determining the broad policy within which the system will operate."

Task Force Hydro observed, however, that "Government policy direction to the delivery system as a whole has not been through a single channel", ⁽²⁾ and went on to say that,

(1) This structural distinction should not obscure the point made earlier that the program delivery sections of a ministry would continue to play an important role in raising policy issues and suggesting actions in their areas of responsibility.

(2) Task Force Hydro Report No. 1, p.35

"the increasing range and complexity of policy issues facing Government and Hydro and the degree to which such issues as regional development and environmental policy bear on the total delivery system suggests the need for a more clearly defined channel of communication for policy direction". (1)

Task Force Hydro therefore accepted the Ministry concept, recommended that there be a single channel of policy direction to Ontario Hydro, and that Ontario Hydro be a delivery agency of Government.

With the assignment of responsibility for The Power Corporation Act to the Minister of Energy in 1973, Ontario Hydro may be seen as being a delivery agency within the overall ministry umbrella of the Ministry of Energy.

Ontario Hydro, the Ontario Energy Corporation and the Ontario Energy Board, each with its own distinct role and its own type of relationship to the Government, all report to the Minister of Energy and each agency receives an appropriate type of policy guidance.

(1) Task Force Hydro Report No. 1, p.36

While recognizing the significance of the Minister of Energy as the channel for policy guidance to Hydro, other Ministers have legislative responsibilities of their own which impact directly and indirectly on Ontario Hydro. The Commission has already reviewed with other Ministries their responsibilities which affect Hydro. For the convenience of the Commission, a list of Acts of other Ministries with provisions relating to the electric power system is included as Appendix I.

To summarize, in terms of the structure of the Ontario Government, Ontario Hydro is a delivery agency within the overall umbrella of the Ministry of Energy and receives policy direction through the Minister of Energy. As Task Force Hydro noted, though, in order for Ontario Hydro to maintain the highest level of management effectiveness, Government intervention in the day-to-day operations of Hydro must be held to a minimum. Again, this is consistent with the C.O.G.P. principle that the policy-making and service delivery functions should be kept separate.

IV. MINISTRY OF ENERGY - STRUCTURE AND OPERATION

This section briefly describes the events leading up to and the establishment of, the Ministry of Energy, the present structure and role of the Ministry Office, its early achievements and the areas of involvement and responsibilities of the Ontario Energy Corporation and the Ontario Energy Board. Section V will deal with Ontario Hydro's 'role and place' in the Government of Ontario.

A. Precursors

In 1973, the Advisory Committee on Energy, in Volume II of its report, reviewed the ministerial and administrative structure of the Ontario Government as it related to energy in Ontario at that time. (1)

The Minister of the Environment was then responsible for the administration of The Power Commission Act, The Power Commission Insurance Act, The Power Control Act, The Rural Hydro Electric Distribution Act and The Rural Power District Loans Act.

Other Ministries with energy responsibilities relating to Ontario Hydro included the Ministry of Natural Resources, the Ministry of Transportation and Communications

(1) Advisory Committee on Energy, Energy in Ontario, Volume II, March 5, 1973, p. 136-145

the Ministry of Consumer and Commercial Relations, and the Ministry of Treasury, Economics and Intergovernmental Affairs. In addition, other ministries dealt with energy matters on a more limited basis.

The Advisory Committee on Energy recommended the establishment of a separate ministry for energy in which existing government branches and functions dealing with energy would be brought together. (1)

Similarly, Task Force Hydro concluded that there should be a single channel for policy direction to Ontario Hydro from the Government. However, Task Force Hydro recommended that this policy direction should be channeled through the Provincial Secretary for Resources Development. (2)

On January 15, 1973, the Premier of Ontario appointed W. Darcy McKeough his Parliamentary Assistant with special responsibilities for energy. Mr. McKeough was asked to investigate and make recommendations on energy policy and procedures and to integrate the recommendations of the Advisory Committee on Energy with those of Task Force Hydro. Mr. McKeough's report was submitted to the Premier on June 1, 1973.

- (1) Advisory Committee on Energy, Volume I, December 19, 1972
- (2) Task Force Hydro, Report No. 1, August 15, 1972 p. 37.

The McKeough Report contained forty-six proposals relating to energy policy and to the structure of the Ontario Government in relation to energy matters. Although Mr. McKeough recommended against the establishment of a ministry for energy in favour of an energy secretariat responsible to the Provincial Secretary for Resources Development, the Premier subsequently decided that a separate ministry should be established. When the Ministry was established in the summer of 1973, and Mr. McKeough was appointed its first Minister, the McKeough Report became the basis for the objectives of the new ministry.

B. Establishment of Ministry of Energy

On June 7, 1973, Premier Davis introduced The Ministry of Energy Act, as well as Acts to amend The Ontario Energy Board Act and The Power Commission Act. The Ministry of Energy Act established the Ministry and, in Section 8, set out the responsibilities of the Minister and Deputy Minister of Energy as follows:

- (a) to review energy matters on a continuing basis with regard to both short-term and long-term goals in relation to the energy needs of the Province of Ontario;
- (b) to advise and assist the Government of Ontario in its dealings with other Governments regarding energy matters;
- (c) to make recommendations for the effective co-ordination of all energy matters within the Government of Ontario

with a view to ensuring the consistent application of policy in every area of concern regarding energy and, notwithstanding the generality of the foregoing, with respect to the adequacy of supplies, prices, franchises and the development of energy resources indigenous to Ontario; and

- (d) to make recommendations regarding priorities for the development of research in all aspects of energy of significance to Ontario, including the conservation of energy and the improvement of efficiency in its production and utilization and the development of new energy sources.

In addition, the Ministry of Energy Act designated the Minister as responsible for the administration of The Power Commission Act. At the same time, the amendments to The Power Commission Act designated Ontario Hydro as a Corporation and, with the other amendments provided the basis for the development of an overall energy policy by the Government.

Amendments to The Ontario Energy Board Act provided that the Board would have responsibility for reviewing Ontario Hydro rates and such other matters as the Minister may wish to refer to the Board, and for reporting its conclusions to the Minister of Energy.

C. Structure and Role of Ministry Office

In essence, the role of the Ministry Office is to provide support to the Minister in developing and effecting energy policy. This role involves the following functions or missions:

1. To review energy matters
2. To advise on energy policy
3. To apply energy policy through the co-ordination of the Government's energy related activities and through interventions before Provincial and Federal tribunals.
4. To interpret Government policy to the Ministry agencies, to coordinate these agencies in terms of Government policy and to serve as a link between the Ministry agencies and other Ministries.

In carrying out its responsibilities, the Ministry Office works in close cooperation with Ontario Hydro, the other Ministry Agencies, and officials of other Ministries of the Ontario Government. In this way, the Ministry Office is able to operate with a relatively small staff. In order to provide some degree of structure, the professional staff of the Ministry office is presently organized into four inter-dependent, but nevertheless distinct groups.

For the information of the Commission, the 1976-77 Estimates of the Ministry of Energy, together with a generalized Organization Chart, are included as Appendix II.

The functional responsibilities of the four groups making up the Ministry Office are as follows:

1. Policy Development Group

This group works in concert with the other groups in the Ministry and with outside resources in the development of Provincial energy policy and in the short-term response to issues of the day. This group has special responsibility for:

- monitoring of the crude oil, natural gas, thermal and metalurgical coal, uranium, petro-chemicals and petroleum products and electricity sectors;
- ongoing review of the programs and activities of the Ministry to identify and make preliminary evaluation of new issues which may require further attention;
- Hydro affairs.

2. Information and Analysis Group

This staff support group, has special responsibility for:

- maintenance of data base and information for Ministry use;
- arrangement of access to data and information from outside sources as required;
- provision of economic, financial, statistical management and systems analysis capability in support of Ministry programs;
- development and evaluation of alternative energy scenarios;
- development and adaptation of models including energy balance and forecast models suitable to Ontario requirements;
- application of information systems to the operation of the Ministry.

3. Energy Technology Group

- ongoing review of the state of the art in the energy technology sector;
- coordination of the Government's Energy Management (Conservation) Program;

- evaluation of energy research and development and the recommendation of Provincial programs;
- technical aspects of substitution studies;

4. Legal and Regulatory Affairs Group

In addition to its general responsibilities as part of the Ministry Office, this group has special responsibilities for:

- provision of legal advice, counsel and solicitors' services to the Ministry;
- provision of legal support for the Ontario Energy Board;
- provision of counsel to represent the Province of Ontario at hearings before Federal and Provincial energy tribunals;
- interpretation of legal and constitutional implications of energy policies and programs;
- co-operation with the energy sector in the public interest, regarding matters relating to the implementation of regulatory procedures, energy policy objectives, public participation and funding.

Policy direction to Ontario Hydro is the responsibility of the Minister of Energy supported by the staff of the Ministry Office.

Since its establishment in 1973, the Ministry Office has achieved most of the original McKeough Report objectives and has evolved to the point where new objectives and new directions are being formulated, suggesting the need for possible changes in structure and organization.

D. Early Achievements of the Ministry Office

Since its establishment in 1973 the Ministry of Energy has built upon and gone beyond the studies and integrative work presented in the reports of the Advisory Committee on Energy, Task Force Hydro and the Parliamentary Assistant to the Premier.

Ministry initiatives relating to Ontario Hydro and the electric power system are outlined in Section VI of this submission and in the Ministry's answers to the other questions asked by the Commission. Such initiatives have been taken within a broader context of review of energy issues generally and provision of advice to the Government on the development of energy policy.

Some of the more significant actions of the Ministry within the broader context of energy issues include:

- development of tools for the analysis of energy supply and demand for Ontario by type of energy and by type of end use.
- development of provincial energy objectives in relation to other provincial objectives.
- identification of areas requiring Government involvement in support of energy objectives.
- the creation of the Ontario Energy Corporation and investment through the O.E.C. in Syncrude and Polar Gas.
- co-ordination of actions by other ministries under the Energy Management Program.
- preparation of a natural gas allocation contingency scheme which can be implemented if necessary under The Ontario Energy Board Act.
- review by the Ontario Energy Board and subsequent introduction of legislation to permit rate based investment by natural gas utilities in new projects such as frontier pipelines.
- preparation of an alternative oil pricing proposal for consideration by other provinces and the federal government - the "blended price" proposal.
- interventions before the National Energy Board with respect to electricity, and natural gas and crude oil supply and export matters; also involvement in environmental assessment of pipeline projects.

From the outset, the Ministry has been developing its appreciation of the importance of electrical power in overall energy policy and of the significance of Ontario Hydro and other Ministry agencies both as sources of input in policy development and as instruments for policy implementation.

E. Ontario Energy Corporation (OEC)

The Ontario Energy Corporation was established by legislation effective February 28, 1975 with the object of participating in energy-related projects to further the adequacy and security of supplies of energy for Ontario.

The O.E.C. Act establishes a Board of five Directors requires that the Minister of Energy hold a majority of the shares, limits the extent of individual and non-resident ownership of equity shares, specifies that a majority of the members of the Board must be resident Canadians, authorizes the Treasurer to make loans to the O.E.C. with the approval of the Lieutenant Governor in Council, and requires that the O.E.C. submit its annual report to the Minister of Energy who tables it in the Legislature.

The President of the O.E.C. (currently the Deputy Minister of Energy) and four other senior civil servants make up the Board of Directors.

The O.E.C. currently has a 5% equity interest in Syncrude Canada Limited at an estimated capital cost of \$100 million and is participating in the Polar Gas Project up to an investment of \$10 million.

The Syncrude Project is a scheme for the mining of oil sands in northeastern Alberta and the extraction and upgrading of bitumen to produce synthetic crude

oil. The plant is designed to produce about 125,000 barrels per day of synthetic crude oil.

The Polar Gas Project is a consortium of six companies, conducting engineering, financial, economic and environmental studies necessary for the filing of applications before regulatory authorities to approve the building of a large diameter, high-pressure natural gas pipeline from the eastern high Arctic to southern Canada. Current activities are directed toward filing an application with appropriate regulatory authorities in 1977.

A copy of the Ontario Energy Corporation's 1975 Annual Report is attached.

F. The Ontario Energy Board

The Ontario Energy Board is a regulatory and advisory body reporting to the Minister of Energy. It performs a regulatory role with respect to natural gas utilities and opportunity both for public input at hearings and for independent review by O.E.B. members and staff.

The O.E.B. also provides a forum for public review and debate and for development of informed advice to the Minister independently from Ontario Hydro and the Ministry Office, with respect to Ontario Hydro's bulk power rates. In the Minister's reference of a rate change proposal or other rate related matter to the O.E.B., the legislation provides that he may specify criteria or factors to guide the Board in making its investigation, examination and report. Within the scope of this direction, the O.E.B. holds public hearings, examines the information before it and makes its report to the Minister and to Ontario Hydro.

The Lieutenant Governor in Council may also refer other matters relating to energy to the O.E.B. for a public hearing and report.

Currently the O.E.B. is preparing for a review of Ontario Hydro's 1977 bulk power rate proposals and, later in the year, for referral of a costing and pricing study prepared by Hydro.

Clearly, the O.E.B. has a central role in the electric power planning process.

A copy of the Ontario Energy Board's 1975 Annual Report is attached.

G. Ontario Hydro

Section III sets out the rationale for Ontario Hydro's role as a delivery agency of the Ontario Government and within the umbrella of the Ministry of Energy. Section V below describes Ontario Hydro's 'role and place' in greater detail.

V. ONTARIO HYDRO'S "ROLE AND PLACE"

A. Ontario Hydro as a Crown Corporation

Task Force Hydro recommended that Hydro's status should be changed to that of a Crown Corporation from a Commission. In its view, Crown Corporation status was more appropriate because it provided for greater organizational distinctness, more flexibility, better opportunities for delegation of the administration of day-to-day business and an opportunity for account-keeping highlighting output rather than input. Finally, the new corporate organization would clearly signal a break from the past to those in Hydro, to those in the utilities and to the public. ⁽¹⁾

The Government of Ontario accepted this recommendation. In introducing the necessary amendments to The Power Commission Act in June, 1973, the Premier of Ontario made the following statement in the Legislature:

"Under these amendments Ontario Hydro will, very properly, continue to be accountable to the Legislature. It will continue to be charged with delivering power at cost and with serving the best interests of all the people of Ontario. The corporate structure, however, will emphasize Hydro's operational independence and strenghtens its ability to be progressive and to conduct its affairs in accordance with the

(1) Task Force Hydro, Report No. 1, August 15, 1972, pp.48-49

best principles of enlightened commercial enterprise.

At the same time this Act, in conjunction with others being introduced today, will permit the Government to develop an overall policy for energy within which Ontario Hydro would operate. No longer is it appropriate for policy for electrical energy to be made without reference to policy on other forms of energy.

I should underline that Hydro's new corporate structure will not impair the fundamental relationship which it has always enjoyed with the municipally-owned distribution utilities."

B. Board of Directors

The Power Corporation Act, Section 3(1) states that there shall be a Board of Directors of the Corporation consisting of a Chairman, a Vice-Chairman, a President and not more than ten other Directors.

Task Force Hydro recommended that the Board of Directors of Ontario Hydro should be "responsible to the Government for

the operation of the Corporation and to receive the policy direction from the Government". (1) The channel for such policy direction is now the Minister of Energy.

Task Force Hydro went on to note that not only would the Board ensure that Hydro's policy is consistent with Government policy, but that the Government would look to the Hydro Board for advice in formulating such policies as would affect Hydro.

In short, while the Board would be responsible for the overall direction of the delivery system, its primary role would be in the development of operational policy.

C. Duties of Board

While this submission will not dwell in detail on the responsibilities of Ontario Hydro's Board, it is necessary to note that The Power Corporation Act, Section 4(1) states that the business and affairs of the Corporation are under the direction and control of the Board.

Moreover, Task Force Hydro proposed specific duties and responsibilities for the Board:

1. To establish with the Government a formal contract setting out the expectations of each party and specifying the purpose and role of Hydro;

(1) Task Force Hydro Report No. 1, p.49

2. To translate Government policy for Hydro into Corporate policy, thereby giving direction to senior management;
3. To appoint and fix the remuneration of the President, Vice-Presidents and other Officers of the Hydro Corporation;
4. To approve the policies for allocation of the cost of power and rate structures for both wholesale and retail sectors;
5. To approve the annual operating and capital budgets of the Corporation;
6. To approve the long-range strategic corporate plans;
7. To approve specific major capital expenditures and contracts;
8. To approve terms and conditions which are to apply to contracts between the Hydro Corporation and the distribution utilities;
10. To ensure that the policies and plans approved by the Board are being carried out satisfactorily, relative to pre-determined standards and time and cost targets;
11. To ensure that all interested parties, including the public are fully informed of the Corporation policies, plans, objectives and activities.

(1) Task Force Hydro Report No. 1, p.50-51

Of these eleven duties and responsibilities only the so-called Hydro-Government "contract" has not been acted upon in the way Task Force Hydro envisaged. Subsequent experience has shown that the basic framework - both legislative and non-legislative is already in place. This is discussed in Section VI.

Consolidating the results of all reviews of Ontario Hydro, both past and current, helps to clarify the understanding between the Government and Ontario Hydro. While work is underway with the object of refining the structure and process of communication between Ontario Hydro and the Ministry Office and, indeed, their respective knowledge and understanding of the policy framework, the key variable is not the formality of the contract but the personalities and interpersonal relationships of the individuals who are responsible for making the system work.

From the public's point of view, however, it is essential that there be clear understanding of the policy parameters given to Ontario Hydro by the Government. Again Section VI is designed to provide the basis of that understanding.

D. Chairman and President

Task Force Hydro noted that the Chairman of the Board would have the key role to play in the relations of the Board with the Government and the general public. It recommended that "the Chairman be appointed on a full-time basis and his orientation be outward to the Ontario community and to the Government and that, with his Board, he focus on the translation of Government policy into consistent and achievable corporate objectives and policies." (1)

Task Force Hydro saw the President of Hydro as performing a complementary role to that of the Chairman. It recommended that "the President be responsible to the Board of Directors for directing the affairs of the Corporation in accordance with goals and objectives established by the Board." (2)

The Task Force pointed out that the relationship between the Chairman and the President would be particularly important. The Chairman would be the presiding Officer while the President would take responsibility for the ongoing operation of Hydro.

(1) Task Force Hydro Report No. 1, p.53

(2) Task Force Hydro Report No. 1, p.54

"They must, therefore, co-operate closely, the President reporting to the Chairman. They must be mutually informed so that there is a free, complete, and continuous exchange of information between the operating divisions of the Corporation, the Board and the Government." (1)

The Royal Commission is anticipating a submission from Ontario Hydro with respect to the functions and responsibilities of the Chairman, President and the Board of Directors as they pertain to electric power planning. The Ontario Hydro submission will complement this submission.

(1) Task Force Hydro Report No. 1, p.52

VI. POLICY FRAMEWORK

This section deals with Ontario Hydro's traditional mandate, the legislative and non-legislative mechanisms for policy guidance from the Ontario Government to Hydro, and a number of areas in which Government policy direction has been provided to Ontario Hydro.

- INTRODUCTION - HYDRO'S TRADITIONAL MANDATE

Ontario Hydro's traditional mandate has been to meet demand for electricity at the lowest feasible cost. In Task Force Hydro's words, "this has been put into effect through the satisfaction of peak demand at the lowest possible cost consistent with a high standard of reliability, financial soundness and independence."⁽¹⁾

Task Force Hydro further noted:

the co-operative partnership between Ontario Hydro, the municipalities and the Government of Ontario has been a dramatic success story. One of the most rapid rates of industrialization in the world has been served and facilitated and Ontario residents have been provided with electricity at very low rates compared with other provinces and the United States without the inconvenience and economic loss experienced through brownouts.⁽²⁾

⁽¹⁾ Task Force Hydro Report No. 1, August 15, 1972, p.7

⁽²⁾ Task Force Hydro Report No. 1, August 15, 1972, p.5-6

However, it has become increasingly apparent that other objectives must also be taken into account in planning Hydro's future operation and growth. While Hydro's traditional mandate remains in effect, it is now subject to an increasing number of policies and procedures established by the Government as outlined later in this section. In effect, as the Government's policy changes, likewise Hydro's mandate changes.

It is a continually evolving process.

A. MECHANISMS OF POLICY GUIDANCE

1. Legislative Mechanisms

There are a number of Acts which set out procedures or operational requirements which Ontario Hydro must follow. Some of these legislative requirements are directed specifically at Ontario Hydro, while others apply to Hydro as to other agencies of the Government or as to other organizations involved in similar undertakings. In several cases the specific approval of the Lieutenant Governor in Council is required prior to action by Hydro.

a) Legislation of the Ministry of Energy

(i) The Ministry of Energy Act

Under Section 4 of The Ministry of Energy Act, the Minister of Energy is responsible for the administration of The Power Commission

Act and The Ontario Energy Board Act. As described earlier, Section 8 sets out the responsibilities of the Minister and Deputy Minister of Energy.

(ii) The Power Corporation Act

In 1973 the Hydro Electric Power Commission of Ontario was continued as a Corporation under the name of Ontario Hydro. The Power Commission Act was amended and is now The Power Corporation Act.

This Act cites a number of actions by Ontario Hydro which require the prior approval of the Lieutenant Governor in Council. The Minister of Energy has taken forward recommendations to the Executive Council under most of these sections. Once approved, these recommendations to Council become legally effective Orders in Council. A list of sections requiring Lieutenant Governor-in-Council approval is provided in Table I.

Key sections in the Act requiring Lieutenant Governor-in-Council approval are Section 24, approval for all Hydro projects including purchases of power; acquisition of water rights, generating stations, transmission lines and other works, and Sections 62 and 70, approval of all contracts for the sale of power.

TABLE IAPPROVALS OF LIEUTENANT GOVERNOR IN COUNCIL (LGIC)
REQUIRED BY POWER CORPORATION ACTSections

- | | |
|--------|--|
| 3 | LGIC must appoint Hydro's chairman and directors and set their remuneration. |
| 11 | LGIC must appoint auditors and approve their fee. |
| 19(1) | LGIC must approve any postponement of sinking fund collection. |
| 21(6) | LGIC must approve pension plan regulations. |
| 22 | LGIC must approve any inclusion of municipal utility employees in Hydro's pension plan. |
| 24 | LGIC must approve all Hydro projects, including acquisitions of land, water rights, works and other property; construction (except minor repairs to existing structures); expropriation; lease or operation of power works owned by others, etc. |
| 25, 26 | LGIC must approve frequency changes and corresponding equipment changes. |
| 25 | (From Power Corporation Insurance Act) LGIC must approve contracts for insurance of municipal power utility employees and related Hydro regulations. |
| 35(2) | LGIC may appoint a board of valuation to fix compensation for expropriation in case of dispute. |
| 35(4) | LGIC may designate a judge to hear appeals from a board of valuation. |
| 41 | LGIC may appoint a judge at a prescribed remuneration to apportion the cost of any improvements to a body of water among all owners of power sites benefiting therefrom. |
| 48 | LGIC may borrow money and loan it to Hydro. |
| 49 | LGIC may authorize payment to Hydro of monies voted by the Legislature for its use. |
| 50 | If the Legislature has voted money for a specific work, and the money has been exhausted without completing the work, the LGIC may order an advance of the additional funds required. |

Sections (contd)

- 54 LGIC must approve all Hydro borrowing by issue of securities (approval of short-term borrowing is given by reference to general characteristics, not to specific issues).
- 55 LGIC may guarantee the securities issued by Hydro
- 56 LGIC may guarantee the performance by Hydro of any obligations related to a share acquisition.
- 57 LGIC must approve all bank and other temporary loans and may guarantee their repayment.
- 59(2) LGIC must approve the manufacture of machinery and equipment related to the provision of power when Hydro do their own manufacturing.
- 59(4) LGIC must approve research and development related to power.
- 61 LGIC must approve the use for other purposes of unused power works.
- 62 LGIC must approve the form of contracts for supply of power from Ontario Hydro to municipal utilities.
- 65(2) LGIC may direct an inquiry to ascertain rights in case of a dispute over a municipal power franchise.
- 70 LGIC must approve all contracts for the sale of power other than to municipalities or the rural power district.
- 84(1) LGIC must approve distribution by Hydro in rural townships.
- 86 LGIC must approve contracts for the sale and distribution of power in parks.
- 94(1) LGIC must approve Hydro safety regulations.

Under Section 54, Hydro must obtain approval for all borrowing, and under Section 57, approval is required for all bank and other temporary loans. It is the usual procedure for the Treasurer of Ontario to review these requests made by Hydro under Sections 54 and 57 and to sponsor the necessary recommendations to the Executive Council.

Section 55 provides that the Lieutenant Governor in Council may guarantee Ontario Hydro bonds, debentures or other securities and that such guarantees shall be signed by the Treasurer of Ontario, the Deputy Treasurer or such other officials as may be designated.

Section 3 provides that the Lieutenant Governor in Council shall appoint Hydro's Chairman and Directors and set their remuneration. These appointments are made upon the Premier's recommendation.

Section 10 of the Act requires Ontario Hydro to file with the Minister the Annual Report of the Corporation, which the Minister submits to the Lieutenant Governor in Council and then tables in the Legislature at the earliest opportunity. In part because of this provision and also because of the provisions of The Ministry of Energy Act, questions in the Legislature relating to Ontario Hydro are normally directed to the Minister of Energy. The Ontario Hydro Annual Report for 1975 was tabled in the Legislature by the Minister of Energy on June 16, 1976.

A copy of Ontario Hydro's 1975 Annual Report is attached.

Two other Acts which are related to The Power Corporation Act should be mentioned here. The Power Corporation Insurance Act provides for insurance coverage of employees of Hydro or municipal electrical utilities. The Rural Hydro-Electric Distribution Act permits the Treasurer, with the approval of the Lieutenant Governor in Council, to pay up to 50 per cent of capital costs of works and equipment in the rural power district.

(iii) The Ontario Energy Board Act

The Ontario Energy Board Act provides for the establishment of a Board, appointed by the Lieutenant Governor in Council, with officers and staff as necessary. The Act sets out the procedures and powers of the Board, which may generally be characterized as quasi-judicial.

The Act provides that the Board shall regulate several matters relating to natural gas utilities and transmission facilities.

In addition, the 1973 amendments to the Act established a procedure for reviewing but not regulating Ontario Hydro rate changes. Section 37 (a) requires that Ontario Hydro refer any proposed rate change to the Minister of Energy at least eight months before

the effective date of the change and for the Minister then to refer the proposal with his directive to the Ontario Energy Board. The Board must give at least twenty days public notice, then hold a public hearing and make a report to the Minister on the proposals at least four months in advance of the effective date. The Minister may also refer other matters relating to Ontario Hydro rates to the Ontario Energy Board for hearing and reporting. The O.E.B.'s procedures remain quasi-judicial but its function in this area is advisory rather than regulatory.

The O.E.B.'s review and report on Ontario Hydro rates are not binding on the Minister nor on Ontario Hydro. The legal responsibility for setting Ontario Hydro rates following the review procedure rests with the Ontario Hydro Board of Directors.

Section 37 of the Ontario Energy Board Act establishes that the Lieutenant Governor-in-Council may refer to the Board any other question respecting energy which the Executive Council feels requires a public hearing.

iv) The Ontario Energy Corporation Act

The legislative provisions for the Ontario Energy Corporation were summarized earlier. While OEC is not currently involved in any projects intended specifically to supply fuel to Ontario Hydro, the OEC's legislation clearly indicates the potential for future involvement of this type.

b) Other Ontario Legislation

In addition to the Acts which are the responsibility of the Minister of Energy, there are several other pieces of Ontario legislation which constitute part of the formal policy framework within which Ontario Hydro and the electric power system operate. For the convenience of the Commission the Ministry of Energy has provided a list of these Acts in Appendix I to this report.

Three of the more significant, or potentially significant, of these Acts are The Public Utilities Act, The Environmental Assessment Act and The Ombudsman Act.

The Public Utilities Act is the legal basis for the local electric utilities which are the backbone of the retail system in Ontario. In particular, Sections 38 to 48 provide for the establishment of Municipal Public Utilities Commissions.

The Environmental Assessment Act, which has not been proclaimed in full as of the date of writing of this submission, will apply through Regulations to most of the undertakings of Ontario Hydro. As described in the submission to the Commission from the Ministry of the Environment, The Environmental Assessment Act will establish a major review process, including public

hearings in most instances, which will ensure that Ontario Hydro projects will proceed only in a manner which would have acceptable environmental effects. Even now, before the Act is in effect, the significance of the environmental assessment process is apparent. The relationship between this process and other legislation and policy relating to Ontario Hydro is being clarified.

The Ontario Ombudsman Act (1975) is another recent piece of legislation with important ramifications for Ontario Hydro. Section 15 (1) of this Act states that the function of the Ombudsman is to investigate administrative actions of governmental organizations which affect individuals in Ontario. The definition of "governmental organizations" has been judged to include Ontario Hydro.

Inquiries from the Ombudsman relating to Ontario Hydro are referred directly to the Secretary of Ontario Hydro, except where they relate to actions for which the consent of the Lieutenant Governor in Council is required. In those cases, such inquiries are referred to the Deputy Minister of Energy. In the first instance, the inquiries are responded to by Hydro direct; in the second instance, by the Ministry office.

c) Federal Legislation

Certain responsibilities of the Federal Government relate to Ontario Hydro's operations and to electric power planning.

The National Energy Board Act provides for the regulation of interprovincial undertakings including rates and delivery facilities. Electric power interconnections across the international boundary also fall under federal regulation.

The Atomic Energy Control Act establishes Federal regulation of works for the mining and production of uranium, the export of uranium and the construction and operation of nuclear generating stations. Ontario Hydro's nuclear generation program is, therefore, heavily dependent upon federal regulatory policies.

2. Non-Legislative Mechanisms

While the legislation described above provides the basic structure and policy framework for Ontario Hydro, a number of non-legislative mechanisms are of considerable importance on specific policy issues.

These are:

(a) Cabinet Directives

In addition to the Executive Council approvals required in the form of Orders in Council under various Acts, Cabinet policy

decisions on specific issues also impact upon Ontario Hydro. Such Cabinet directives may be either a decision applying generally to several or all agencies or organizational units of the Ontario Government or a decision relating specifically to Ontario Hydro.

Cabinet decisions which apply generally are ordinarily communicated to Ontario Hydro by the Minister of Energy. Even where such directives are transmitted through another Ministry, the Ministry Office of the Ministry of Energy is involved in interpreting how the policy relates to Ontario Hydro.

Policy decisions directed at Ontario Hydro specifically are transmitted to the Chairman of Ontario Hydro by letter from the Minister of Energy or from the Deputy Minister. A recent example is the Minister's letter to the Hydro Chairman on the subject of the application of the Anti-Inflation Guidelines to Ontario Hydro's 1977 bulk power rates. This letter, dated June 14, 1976, is included as Appendix III.

An exception to the procedure set out in the previous paragraph is Cabinet decisions communicated to the Chairman of Hydro by the Treasurer of Ontario in respect of financial

matters such as the level of public market borrowings by Ontario Hydro. The Treasurer's letter of January 22, 1976 to the Ontario Hydro Chairman (Appendix IV) is a significant recent example of this type of communication. In a sense, however, such communications fit into the first category, that of general government policy. In the case of the January 22nd letter, the Treasurer's objective was to establish the total level of public financing, including both Treasury borrowings and Hydro borrowings, over a three-year period.

In any event, the Ministry Office will be involved and play a leading role in the process leading up to the decision and the communication being sent to Ontario Hydro.

(b) Consultation at Ministerial Level

The Minister of Energy and the Chairman of Ontario Hydro have frequent meetings and correspondence through which they exchange views on matters relating to Ontario Hydro which are of interest to the Minister and to the Government. This is an important channel through which policy issues relating to Ontario Hydro are identified and through which these issues can be resolved jointly.

In most cases the President of Ontario Hydro and the Deputy Minister of Energy are involved in such discussions.

In addition, it is not unusual for the Chairman of Hydro to be involved in meetings attended by other Ministers where policy matters are discussed.

Communication on policy matters is not a one way flow, and the Minister looks to the Chairman and Board of Directors of Ontario Hydro for advice in formulating policies which affect Ontario Hydro.

(c) Consultations at the Staff Level

Regular contacts are maintained between staff of the Ministry of Energy and staff of Ontario Hydro. These discussions range from informational exchanges to joint policy development projects. Similar bilateral discussions involve financial planning and management staff of Hydro and of the Ministry of Treasury, Economics and Intergovernmental Affairs.

Ontario Hydro staff are also involved in several forms of interministerial consultations, both through formally constituted committees and through less

formal processes. From the point of view of the Royal Commission, probably the most important interministerial committee is the Advisory Committee on Regional Development (ACORD) made up of the Deputy Ministers of ministries involved in land-use planning and regional development matters, and chaired by the Deputy Treasurer. The President of Ontario Hydro and the Deputy Minister of Energy are members of this committee which reports through the Treasurer to the Cabinet Committee on Resources Development. Integration of Hydro projects and other land-use planning concerns of the Ontario Government are regularly pursued at this committee

B. AREAS OF POLICY GUIDANCE

To this point no specific non-legislative policy areas have been discussed. Task Force Hydro mentioned a number of such areas in its first report which it felt should be addressed jointly by the Government and Ontario Hydro⁽¹⁾. A brief description of actions taken in these significant policy areas is set out in this section. In addition, several other categories have been identified in which policy guidance to Ontario Hydro has been provided.

The following narrative is subdivided into policy areas of general application and policies applying specifically to Ontario Hydro, in keeping with earlier references to this distinction.

1. GENERAL GOVERNMENT POLICIES

a) Energy Conservation

The Ontario Government has a general policy of promoting conservation of energy and the Ministry of Energy coordinates initiatives to implement this policy. The Government has requested that there be close co-ordination between the provincial

(1) Task Force Hydro, Report No. 1, p.25

program for energy conservation in all forms of energy and the Ontario Hydro conservation program directed particularly to electrical energy. There is to be a heightened awareness of the overall energy conservation program including the Ontario Hydro program. In recognition of this priority, Ontario Hydro has established a separate section to direct its conservation program.

An example of cooperative conservation activity is in the area of district heating. The Government commissioned a study on district heating which relates to the extraction of steam from generating stations during the daily off-peak periods. Ontario Hydro supplied data for the study, co-operated in other aspects and concurs broadly with the findings. The lead on district heating projects will be taken by the Government, but with the close support of Ontario Hydro.

Another example where Ontario Hydro has responded to the Government's high priority on energy conservation is the elimination of Ontario Hydro's promotional advertising and marketing.

b) Environmental Policy

As with all other major institutions, Ontario Hydro's activities must be consistent with provincial environmental policy. Ontario Hydro must conform to all statutory requirements for environmental protection, for example, to the air quality standards set out by the Regulations under The Environmental Protection Act.

An example of specific environmental policy direction is the Minister's announcement in the Legislature on April 7, 1976, endorsing the standards for construction of 500 kV transmission lines recommended by the Environmental Hearing Board.

Low grade thermal discharge from Ontario Hydro generating stations into lakes and rivers has been of concern to the Government in relation to environmental quality. This matter has been discussed by a committee of deputy ministers and, as a result, guidance has been given to Ontario Hydro regarding the design of future generating stations in relation to management of waste heat.

A third example is the Watts from Waste Project. In 1973, the Ministry of the Environment in co-operation with Ontario Hydro and Metropolitan Toronto commissioned a study of the applicability of suspension burning of solid waste as a supplementary fuel in Ontario Hydro's existing thermal/electric

generating stations. As a result of this study, design of facilities and equipment for one unit of the Lakeview Generating Station is in progress with a projected start-up date of mid-1978, with funds provided by the Ministry of the Environment.

c) Regional Planning and Development

The planning and expansion of Ontario Hydro's electric power system is subject to broad policy direction on economic and regional development. Historically, the Ministry of Treasury, Economics and Intergovernmental Affairs has had lead responsibility for regional and economic policies, as documented in the 1966 Design for Development Report, and updated in March 1976. Major objectives are to work towards the development of the Province's economic potential, the wise use and protection of its natural resources, the equitable distribution of opportunity across the Province, and the planning and growth of urban development.

The Advisory Committee on Regional Development, comprised of deputy ministers from Ministries involved in land use and resources, and the President of Ontario Hydro reviews planning studies and development proposals and makes recommendations through the Treasurer to the Cabinet Committee

on Resources development, which co-ordinates the planning activities of Ontario Hydro with those of other agencies in the resources development field. Studies and recommendations on regional land use and economic development planning in Ontario, when adopted as governmental policy, must, of course, be followed by Ontario Hydro.

d) Land Use/Sitings

The siting of generating stations and transmission lines is subject to the Province's land use policies and legislation. Ontario Hydro has established a site selection and evaluation process to consider major land use factors such as agriculture, community and recreation areas and linear land uses.

Under The Power Corporation Act, (section 24), Ontario Hydro must obtain the approval of the Lieutenant Governor in Council for the acquisition of land and the construction of facilities.

e) Anti-Inflation Program

Ontario Hydro is included under the Memorandum of Agreement signed by the Province of Ontario and the Federal Government regarding the Anti-Inflation Program. Hydro is part of the Ontario Public Sector, subject to the price and profits guidelines and the spirit and intent of the Anti-Inflation Program as agreed between the province and the federal government. Hydro rates and other charges imposed by Hydro are

subject to these guidelines as are the municipal Hydro utilities.

A letter of June 14, 1976 to the Chairman of Ontario Hydro from the Minister of Energy clearly indicates the policy of the government regarding the Anti-Inflation Program with respect to Ontario Hydro. Discussions have been held with the executive members of the Ontario Municipal Electrical Association, followed by a letter of June 16 to the President of the Association from the Minister of Energy.

On the wage and salary side of the Anti-Inflation Program, Ontario Hydro comes directly under the Anti-Inflation Board. In this matter, Ontario Hydro is under the general policy direction to all provincial ministries and agencies of conforming to the regulations laid down by the Federal Board.

f) Social Policy

Ontario Hydro has not generally been considered an instrument of social policy. Two exceptions to this general rule are the rural electrification program of the 1930's and 1940's and more recently the provision of electricity supply in the remote northern communities. A complete review of the role of the province in northern electrification is currently underway.

A third and related exception is Ontario Hydro's co-operation with the Ministry of Transportation and Communications in the provision of power supply in remote northern communities for telecommunications purposes.

(g) Public Participation

The Ontario Government has an overall policy favouring public participation and has initiated a number of public participation processes.

In keeping with this overall policy, Hydro has formalized a public participation process which was made public on January 1, 1974. Atikokan and Darlington Generating Station projects are among those which were guided by the procedures.

2. Policies Specific to Ontario Hydro

a) Capital Borrowing

The availability of capital funds in the money markets of the world has been of intense concern to the government and Ontario Hydro over the last two years. Co-ordination of borrowings of Ontario Hydro and the Province as to the amount and timing is effected through frequent discussions between the Ministry of Treasury, Economics and Intergovernmental Affairs and Ontario Hydro.

Over the past year the long term capital requirements of Ontario Hydro were reduced following the July 7, 1975 budget directive that Ontario Hydro reduce its capital budget by a minimum of \$1 billion. Reduction of \$1.2 billion was effected by adjustment of the system expansion program.

A review of capital needs for the year 1976 began in September of 1975. An independent review of expected 1976 capital markets was commissioned by Ontario Hydro and then compared with the review prepared by the Treasury Section of TEIA. With the Ministry's Office involvement, an estimate of 1976 capital availability was made. The estimate of capital available in Canadian, United States, European and Petro-dollar markets resulted in a determination of the total amount available to the Province and Ontario Hydro. The provincial need for capital was determined and the net capital available to Ontario Hydro in 1976 was estimated.

Based on this review, a policy directive issued to Ontario Hydro by the Treasurer on January 22nd, 1976, indicated that Ontario Hydro must limit its borrowing to \$1500 million dollars annually for the next three years (See Appendix IV). In response to this direction, the Chairman of Ontario Hydro on February 7th, 1976, announced plans for postponement of several projects in the system expansion program.

(b) Financial Integrity

It is the policy of the Government that Ontario Hydro must be maintained in a sound financial position and it is the Ontario Hydro Board's responsibility to ensure this. In particular, the Government has noted the deterioration of Ontario Hydro's debt/equity position and has agreed with the Ontario Hydro Board that there should be a halt in the trend to a higher debt position.

The intent of the policy is best expressed in a paragraph of a letter of June 14, 1976 from the Minister to the Chairman of Ontario Hydro as follows:

"The maintenance of Ontario Hydro's financial integrity in 1977 and subsequent years and its continuing ability to attract capital at reasonable rates to provide service during those years, should be considered as matters of overriding importance with respect to the strict application of other criteria specified for use in determining allowable net income."

c) Productivity and Efficiency

The July 7th, 1975, supplementary budget contained a general directive to all government agencies to demonstrate restraint in expenditure. Ontario Hydro was specifically requested to reduce administrative costs by 10%, and the Board of Directors of Ontario Hydro consequently targetted a minimum reduction of \$10 million in the 1976 work program budget.

Ontario Hydro studies requested by the Minister subsequent to the 1974 rate review included one on inter-utility productivity comparison. The Minister of Energy's reference to the Ontario Energy Board on 1976 bulk power rates requested the O.E.B.'s review on the progress of measures instituted or proposed by Ontario Hydro to promote efficiency and productivity.

d) Load Management

Ontario Hydro has been advised that financial restraints will require a general program of load management in order to delay the need for new plant capacity. The general policy direction includes making arrangements where applicable for purchase of power from outside sources.

One Ontario Hydro response to this policy direction has been an advertising campaign directed at reducing use of electrical energy in the peak period between five and seven p.m. This time period known as the "electrical rush hour", is receiving increasing attention by Hydro in its effort to shift load to a time period when it can be supplied in a more economical way.

e) Export Policy

The Government of Ontario policy on the export of electrical energy from Canadian to United States utilities, in summary, is that exports should be allowed only on terms that provide for Canadian priority and that licences issued by the National Energy Board should be subject to periodic review by the NEB to ensure that Canadian requirements can be met. The Ministry of Energy intervenes at the NEB as necessary in support of this policy and of course Ontario Hydro applications are consistent with this policy.

The Ministry's previous submission of May 1976 (Exhibit 13) to the Commission details the Government's policy on electrical energy exports in response to the Commission's question six.

f) Inter-connection of Provincial Utilities

The Government of Ontario policy on the inter-connection of provincial utilities was stated in the Throne Speech, October 28th, 1975, which directed Ontario Hydro to pursue the possibility of increased interprovincial exchanges of electrical energy by the development of regional transmission grids. The policy emphasized the need to provide energy to Ontario at the lowest cost consistent with adequate systems security.

Exhibit 13 also includes details of the government policy on interconnection of provincial utilities.

g) Fuel Availability

Largely because of Ontario's significant dependence on external sources of energy supplies, the Government has developed policy with respect to the availability of fuel for electricity generation.

Ontario Hydro's concern over its dependence upon United States coal is shared by the Ministry of Energy. Programs designed to secure Canadian coal supplies, to meet the increase in Ontario Hydro's demand have been implemented. As part of this program the Ministry Office has made representations to the Alberta Government with respect to its coal policy and has directed Ontario Hydro to continue its commitment to the utilization of western Canadian coal.

As far as indigenous lignite reserves are concerned, the Government and Ontario Hydro have co-operated in feasibility studies including review of the economics and other aspects of the development of a mine and generating station at Onakawana, the single source of lignite in Ontario.

With respect to uranium, Ontario Hydro, as the largest buyer in the Province, plays a major role in the development of policy in Ontario. Regular discussions are held with Ontario Hydro staff as discussed in the Ministry Office's earlier submission. The Ministry Office recognizes the critical importance of a secure supply of uranium to the long term nuclear program and has expressed its support through Cabinet Submissions

and informal contacts to assist in Ontario Hydro's current negotiations with producers and in its limited exploration activities.

Overall policy with respect to uranium supply, demand and pricing was set out in a policy statement in March, 1974, and is being re-assessed by the Government as circumstances change. A review of the situation is currently under way.

h) Exploitation of Technology

It is the policy of the Provincial Government that the skills and experience developed by Ontario Hydro be shared with private industry in order to enhance the development of the Province and improve the capability of the industry.

In accordance with this policy, Ontario Hydro now uses an open tender procedure for construction work and service contracts. This change allows more industries to become familiar with Ontario Hydro requirements and presents them with the opportunity of developing capability to meet requirements for major contracts. Because of the special nature of most equipment purchases, Ontario Hydro normally uses a prequalified list of bidders in this area.

In accordance with Government policy, Ontario Hydro has been advised to make greater use of outside consulting engineering groups in order to avoid unnecessary expansion of internal engineering work at

peak periods and to share or obtain expertise from external groups. The last two hydraulic generating stations were constructed in this manner as will be the extension to Thunder Bay Generating Station.

In 1974 the Minister of Energy made a major effort in co-operation with Hydro to attract proposals for the engineering, financing, and construction of heavy water plants at Bruce. These efforts were not successful due to financing problems. However, they were a clear indication of policy direction that had been given to Ontario Hydro regarding development of specialized capability in Canada.

i) Nuclear Program

The Government of Ontario authorized Ontario Hydro's involvement in nuclear power in the 1950's when Hydro proceeded with an agreement with AECL to operate AECL's Nuclear Power Demonstration Plant at Rolphton, Ontario. Since then the Government has authorized Hydro's participation in the operation of Douglas Point Generating Station and in the design, construction, operation and ownership of Pickering and Bruce nuclear generating stations.

The Government also adopted the recommendations of Task Force Hydro and directed Ontario Hydro vis-a-vis the development of the nuclear power program stemming from its Report Number Three - Nuclear Power in Ontario.

In this report, specific mention was made of long-term storage and disposal of spent nuclear fuel (recommendation 3.1), continuation of the CANDU-PHW type reactor system (recommendations 3.2, 3.3, 3.4) assurance of uranium supplies (recommendation 3.7) and heavy water (3.8 and 3.9).

j) Canadian Purchasing Preference

Ontario Hydro was included in the general Ontario Government Directive of 1972/73 which set out a policy respecting purchase of Canadian products and services for all government ministries and agencies, requiring advantages of supply, price or delivery before making foreign purchases.

In order to monitor the success of this policy direction, the Minister of Energy and other Ministers receive an annual report from Ontario Hydro on its spending on goods and services together with an analysis of the amount from Canadian sources.

C. SUMMARY - POLICY FRAMEWORK

This section has dealt primarily with some of the legislative, non-legislative and specific policy parameters within which Ontario Hydro operates.

Some of these parameters are designed for Ontario Hydro alone such as The Power Corporation Act. Others are more general in nature. In such cases, as with The Environmental Assessment Act, Ontario Hydro is like any other organization subject to the same ground rules.

The advantage gained in bringing together these policy parameters in this way is four-fold. First, it highlights the extent of the Government's policy applicable to Ontario Hydro. In so doing, it refutes the claims sometimes made that Ontario Hydro operates in a policy vacuum without regard to the needs, aspirations and concerns of the people of Ontario. Nothing could be further from reality.

Second, it puts into perspective perhaps the most fundamental policy of the Government of Ontario insofar as Ontario Hydro is concerned, namely, that the Ontario Hydro Board of Directors is responsible for determining policy for operational matters and receives policy guidance from the Government.

Too often those who claim that the Ontario Government is not giving policy direction to Ontario Hydro are in effect advocating political and bureaucratic involvement in the day-to-day operations of Ontario Hydro. The translation of Government policy into operational policy and its implementation is and should remain the responsibility of the Ontario Hydro Board of Directors.

Third, this section and the description and responsibilities of the various components of the Ministry of Energy illustrates that the main elements of an electric power planning system are in place. It illustrates also that there is growing awareness of and familiarity with its role and responsibilities. Nonetheless, there is a substantial job of fine-tuning of the system still to be done.

It illustrates further that the identification of the respective roles and responsibilities of the Ministry Office and Ontario Hydro has largely been accomplished. Moreover, it illustrates that if there is an area which still needs to be more clearly delineated, it is the method, timing and channel of communication between other government Ministries and Ontario Hydro, particularly between TEIA and Hydro and the role of the Ministry Office in that process.

VII. EXTERNAL SOURCES OF POLICY ADVICE

Ontario Hydro and the Government look to organizations and individuals outside the Government for advice on policy development and implementation. While an extended discussion of such inputs is beyond the scope of this submission, brief references are included to some of the major current external sources in recognition of the important role they play in electric power planning.

A. Select Committee on Hydro Rates

The Select Committee was established in the Fall of 1975, primarily for the purpose of studying Ontario Hydro's 1976 rate proposals following a review by the Ontario Energy Board. The Select Committee received presentations from Ontario Hydro, from Government Ministries and from outside organizations and individuals. The Select Committee's final report was tabled on June 18, 1976, and contained several conclusions and recommendations relating to the power rates and to other matters concerning the electric power system. The Ministry of Energy is currently reviewing the Select Committee's report and it is anticipated that the Government will be in a position to respond early in the Fall.

B. Royal Commission on Electric Power Planning

The Royal Commission, of course, is the major advisory body currently reviewing Ontario Hydro. One of

the Commission's terms of reference is to deal with the broader issues relating to electric power planning and thereby to preclude the need for some subsequent specific hearings by other hearing bodies. The Commission could have a direct effect on the process by which policy guidance is given to Ontario Hydro and the context of that policy not only during the life of the Commission but afterward. Other aspects of the Government's expectations of the Royal Commission were set out in an earlier section of this submission.

C. Ontario Municipal Electrical Association

This association represents the municipal utilities in Ontario which, as mentioned earlier, are the backbone of the retail electric system. The perceptions and advice of the members of the O.M.E.A. are essential inputs to the electric power planning process.

D. Other External Contacts

Finally, Ontario Hydro receives advice and recommendations from many other organizations and individuals in the province, including municipalities, public interest groups, commercial and industrial concerns, associations and individuals. Such external communications, many of which also are directed to the Minister of Energy, are key inputs into the decision-making processes involving Ontario Hydro.

VIII. EXAMPLES FROM ELECTRIC POWER PLANNING PROCESS

By way of illustration of how the structure and process described in this submission operate, outlines of two examples may be helpful. The two examples illustrated are the review processes for Ontario Hydro's 1975 and 1976 bulk power rates, and the evolution of policy direction with respect to Ontario Hydro's generation program for 1977-1982.

Figure 1 summarizes the two examples in the form of a flow chart relating the two on a time scale. In addition, a chronological summary of events is provided for each example.

CHRONOLOGY - REVIEW OF ONTARIO HYDRO BULK POWER RATES

A. BULK POWER RATES FOR 1975

April 29, 1974	Bulk Power rate proposal submitted by Ontario Hydro to the Minister of Energy for increases of 15.3% (municipal) and 16.0% (direct industrial).
May 1, 1974	Reference by the Minister of Energy to Ontario Energy Board.
June 10, 1974	Public hearing by the O.E.B. on bulk power rates for 1975 commenced.
August 14, 1974	Hearing concluded, after 41 sitting days.
August , 1974	Report of the O.E.B. on Bulk Power Rates for 1975 submitted to the Minister of Energy, recommending increases of 12.7% (municipal) and 14.5% (direct industrial).
September 26, 1974	Letter from the Chairman of Ontario Hydro to the Minister of Energy announcing new rates for municipal, rural, and direct industrial customers to take effect on January 1, 1975. Increases were 12.4% (municipal) and 15.2% (direct industrial).

B. BULK POWER RATES FOR 1976

April 24, 1975	Bulk power rate proposal for 1976 submitted to the Minister of Energy by Ontario Hydro, requesting a 29.9% (industrial) and 29.7% (municipal) rate increase.
May 2, 1975	Reference by the Minister of Energy to the Ontario Energy Board.
June 9, 1975	Public hearing by the O.E.B. commenced.
July 7, 1975	Supplementary budget: Treasurer requested that Ontario Hydro reduce capital and operating expenditures.
July 31, 1975	The Chairman of Ontario Hydro announced a revision to Hydro's 1976 bulk power rate request to 24.9% (direct industrial) and 25.1% (municipal).
September 2, 1975	Ontario Energy Board submitted an interim report to the Minister of Energy.
September 15, 1975	O.E.B. hearing concluded, after 55 sitting days.
October 10, 1975	O.E.B. Report on 1976 Bulk Power Rates, Part I, submitted to the Minister of Energy, recommending increases of approximately 26.6% (direct industrial) and 26.7% (municipal).
October 22, 1975	Minister of Energy announced that an all-party Committee of the Ontario Legislature would be appointed to review the 1976 bulk power rate proposal in the light of the anti-inflation program.
October 30, 1975	Appointment of Select Committee Inquiring into Hydro's Proposed Bulk Power Rates, chaired by Donald C. MacDonald, M.P.P., York South.

November 5 to December 11, 1975	Select Committee held 30 public sessions.
December 12, 1975	Interim Report of the Select Committee, recommending a 22% interim bulk rate increase and requesting a time extension.
December 18, 1975	Minister of Energy informed Chairman of Ontario Hydro of the Government's concurrence with the recommendations of the Select Committee.
December 19, 1975	Chairman of Ontario Hydro, in a letter to the Minister of Energy, announced that bulk power rates for municipal and direct industrial customers would be increased as of January 1, 1976 by 22%.
January 20 - June 9, 1976	Select Committee held 45 public sessions.
February 11, 1976	Report of the O.E.B. on Bulk Power Rates for 1976, Part II, submitted to the Minister of Energy.
June 18, 1976	Final report of the Select Committee recommending confirmation of the 22% bulk power rate increase for the balance of 1976.

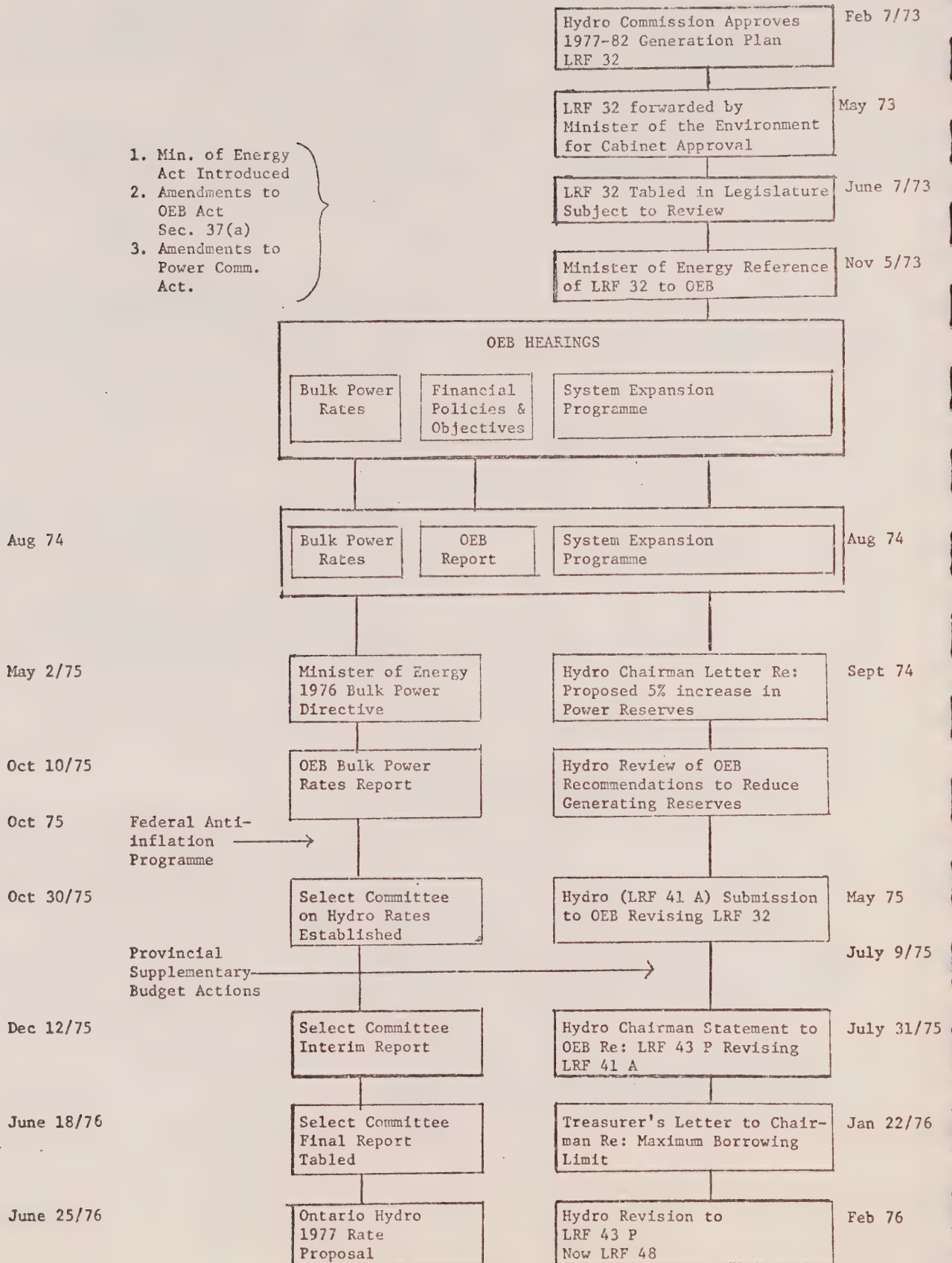
C. BULK POWER RATES FOR 1977

June 25, 1976	Bulk Power Rate proposal for 1977 submitted to the Minister of Energy by Ontario Hydro, requesting a 33.7% (direct industrial) and 31.9% (municipal rate increase).
June 29, 1976	Reference by the Minister of Energy to the Ontario Energy Board.

PROCESS FOR ONTARIO HYDRO'S GENERATION PROGRAMME 1977-82 & BULK POWER RATES
EVOLUTION OF POLICY DIRECTION & A REVIEW PROCESS

72
Figure 1
Generation
Programme
Chronology

Rate
Review
Chronology



CHRONOLOGY - EVOLUTION OF POLICY DIRECTION FOR ONTARIO
HYDRO'S 1977-82 GENERATION PROGRAM

- February 7, 1973 The Ontario Hydro Commission considered and approved of a generation program for 1977-1982 (LRF32) covering: Wesleyville; Pickering 'B'; Bruce 'B'; Bowmanville; Extension to Thunder Bay GS; and new generating site for Northwestern Ontario.
- June 7, 1973 Generation Program LRF32 was tabled in the Legislature by the Premier as part of the Statement on Energy:
- "The government approves in principle this program, subject to the usual individual project approval procedures, so that Ontario Hydro can proceed with detailed planning."
- November 5, 1973 Reference by Minister of Energy to Ontario Energy Board. The OEB hearing in 1974 was divided into three parts: System Expansion; Financial Policies and Objectives; and Bulk Power Rates. The specific reference to System Expansion is as follows:
- "(1) The policies and practices respecting expansion of the Ontario Hydro power system, including the Generation Development Program for the period 1977-1982 which was approved in principle by the Government in June 1973, subject to review;"
- August 1974 Report of the Ontario Energy Board on Ontario Hydro System Expansion hearing.
- There were many recommendation with respect to the generation program, but the most significant for the purpose of this review was that planned reserves should be reduced by 5% of estimated load. A number of studies in connection with reserves and reliability were recommended.

September 26, 1974 In a letter to the Minister of Energy, the Chairman of Hydro indicated the following:

"Power Reserves

The Hydro Board will give priority to a review of the OEB recommendation that planned generating reserves be reduced by 5% of estimated load. The OEB suggests that an independent study be commissioned to establish a new reserve policy and an information program to be developed to explain the consequences so that customers can adjust their operations accordingly. This recommendation, which holds potentially serious consequences for the reliability of service to 2 1/2 million customers, requires careful study before any decision is made."

May 2, 1975

Reference from the Minister of Energy to the Ontario Energy Board re Ontario Hydro 1976 Bulk Rates.

May 1975

In Hydro's submission to the OEB a new generation program was outlined - LRF41A. Program LRF41A was an adjustment to LRF32 to take into account revised in-service dates. As a result of delays in in-service dates, the reserve margin through to 1985 was reduced by approximately 5%.

July 31, 1975

Statement by the Chairman of Hydro to the OEB to the effect that Hydro was cutting its capital program by some \$1.2 billion and the new program, designated as LRF43P, involving a six-month deferment in the in-service date for Bruce 'B' and all subsequent generating plants. This decision was the result of the policy direction of the government as presented in the Supplementary Actions to the 1975 Ontario Budget that the government expected Hydro to shave a minimum of \$1 billion in our capital program between 1976 and 1985.

January 22, 1976 Letter from the Treasurer of Ontario to the Chairman of Hydro, establishing a maximum borrowing limit for 1976, 1977, 1978 at \$1,500 million a year.

February 11, 1976 Announcement by Hydro of a further cut of \$5.2 billion in the capital program, involving deferrals or cancellations of 11 major projects. The new program, LRF48, provides for an annual growth rate of 6% rather than the traditional growth rate of approximately 7%.

IX. A CONCLUDING NOTE

The previous sections have described the main structural components, processes, legislative and other policy parameters involved in electrical power planning in Ontario. It is essentially an historical overview - a description of what is and why.

Much of what is now in place is relatively new as the Government has modified the structure and processes of its energy decision making to meet new challenges and expectations. The important point is that the Government has not hesitated to make modifications, as appropriate.

The Government of Ontario and Ontario Hydro have shown themselves to be remarkably adaptive institutions. Ontario Hydro, in particular, has displayed significant sensitivity to the changing societal moods and expectations, and yet has maintained its high standards of service and reliability.

Nonetheless, the adjustment to changed circumstances has taken time, and much effort, and for some, has not occurred fast enough. In this context, the Royal Commission can be regarded as the Government's instrument to consolidate the work done to date, and to do so in an atmosphere of open public debate.

The Royal Commission provides the Government with a mechanism which can reflect on past challenges and achievements, on current and emerging issues, and which will make recommendations on ways to achieve a new equilibrium for electric power planning in Ontario.

APPENDICES

LEGISLATION AFFECTING ONTARIO HYDROMINISTERIAL RESPONSIBILITYLEGISLATION

* Environment

- . Environmental Assessment Act
- . Environmental Protection Act
- . Ontario Water Resources Act
- . Pesticides Act

* Natural Resources

- . Lakes and Rivers Improvement Act
- . Conservation Authorities Act
- . Public Lands Act
- . Beds of Navigable Waters Act
- . Provincial Parks Act
- . Niagara Parks Act
- . Crown Timber Act
- . Beach Protection Act
- . Mining Act

T.E.I.G.A.

- . Financial Administration Act
- . Local Improvement Act
- . Municipal Act
- . Municipal Affairs Act
- . Municipal Franchises Act
- . Public Utilities Act
- . Ontario Planning and Development Act
- . Parkway Belt Planning and Development Act

Labour

- . Construction Safety Act
- . Industrial Safety Act
- . Labour Relations Act

Attorney-General

- . Ontario Municipal Board Act
- . Expropriations Act

Transportation and
Communication

- . Public Service Works on Highways Act

Office of the Assembly

- . Ombudsman Act

Revenue

- . Assessment Act

Legislation Affecting Ontario Hydro

- 2 -

Government Services

. Ministry of Government
Services Act

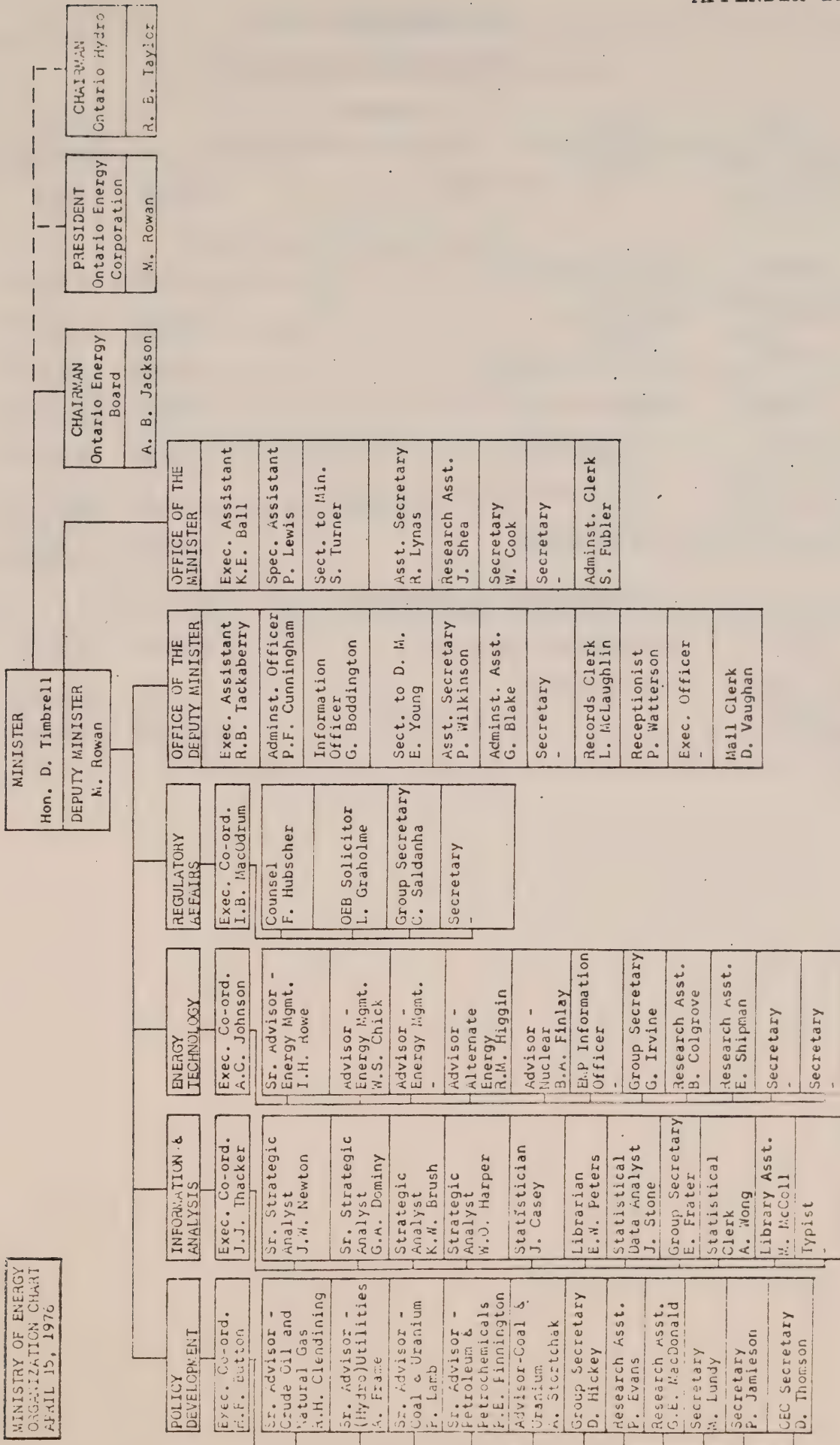
Housing

. Planning Act

Provincial Secretary for
Resources Development

. Niagara Escarpment Planning
and Development Act

* For further details refer to the appropriate ministerial submissions
previously made to the R.C.E.E.P.



THE ESTIMATES, 1976-77

R29

XVIII. — MINISTRY OF ENERGY

SUMMARY

1976-77 Estimates	PROGRAMS	1975-76 Estimates	1974-75 Actual	1974-75 Estimates
\$		\$	\$	\$
523,000	Ministry Administration	462,000	501,105	391,000
2,200,000	Energy Policy	1,562,000	941,332	888,000
1,192,000	Ontario Energy Board	1,153,000	1,019,587	1,020,000
327,000	Ontario Energy Corporation	226,000	100,000,000	—
4,242,000	Ministry Total	3,403,000	102,462,024	2,299,000
18,000	Less: Statutory Appropriations	23,000	100,022,954	18,000
4,224,000	< TOTAL TO BE VOTED	3,380,000	2,439,070	2,281,000
ACCOUNTING CLASSIFICATION				
4,241,000	Total Budgetary Expenditures	3,402,000	2,462,024	2,299,000
1,000	Total Disbursements	1,000	100,000,000	—
4,242,000		3,403,000	102,462,024	2,299,000

THE ESTIMATES, 1976-77

XVIII. — MINISTRY OF ENERGY — Continued

VOTE and Item	1976-77 Estimates	PROGRAM AND ACTIVITIES	1975-76 Estimates	1974-75	
				Actual	Estimates
	\$		\$	\$	\$
1801		MINISTRY ADMINISTRATION PROGRAM			
1	505,000	Ministry Administration	439,000	478,151	373,000
	505,000	Amount to be Voted	439,000	478,151	373,000
S	18,000	Minister's Salary—R.S.O. 1970, Chap. 153, as amended	18,000	17,981	18,000
S	—	Parliamentary Assistant's Salary—R.S.O. 1970, Chap. 153, as amended	5,000	4,973	—
	523,000	Total for Ministry Administration	462,000	501,105	391,000

Program description:

This program provides the staff of the Ministry with overall direction to ensure that the means for it to meet its objectives in a coordinated fashion are available; and provides administrative support services which will help its advisors manage their resources effectively.

XVIII. — MINISTRY OF ENERGY — Continued

STANDARD ACCOUNTS CLASSIFICATION

— NOTES —

Ministry Administration

Salaries and wages	\$305,900
Employee benefits	35,900
Transportation and communication	30,000
Services	118,200
Supplies and equipment	15,000
	<hr/> 505,000
Minister's Salary—R.S.O. 1970, Chap. 153, as amended	<hr/> 18,000
Total for Ministry Administration Program	<hr/> <hr/> \$523,000

THE ESTIMATES, 1976-77

XVIII. — MINISTRY OF ENERGY — Continued

VOTE and Item	1976-77 Estimates	PROGRAM AND ACTIVITIES	1975-76	1974-75	
			Estimates	Actual	Estimates
	\$		\$	\$	\$
1802		ENERGY POLICY PROGRAM			
1	294,100	Policy Development	191,060	244,607	209,900
2	547,000	Information and Analysis	278,700	206,760	215,900
3	600,400	Energy Technology	735,950	243,190	244,900
4	758,500	Regulatory Affairs	356,290	246,775	217,300
	2,200,000	Total for Energy Policy	1,562,000	941,332	888,000

Program description:

To review energy matters on a continuing basis; to advise the government on matters of policy; and to coordinate the energy-related activities of the government, including policy direction to Ontario Hydro and technical support to the Ontario Energy Board.

— NOTES —

XVIII. — MINISTRY OF ENERGY — Continued

STANDARD ACCOUNTS CLASSIFICATION	— NOTES —
Policy Development	
Salaries and wages	\$ 196,400
Employee benefits	22,600
Transportation and communication	14,000
Services	60,100
Supplies and equipment	1,000
	<u>294,100</u>
Information and Analysis	
Salaries and wages	\$ 201,100
Employee benefits	25,500
Transportation and communication	10,000
Services	294,300
Supplies and equipment	16,100
	<u>547,000</u>
Energy Technology	
Salaries and wages	\$ 186,300
Employee benefits	21,100
Transportation and communication	10,000
Services	382,000
Supplies and equipment	1,000
	<u>600,400</u>
Regulatory Affairs	
Salaries and wages	\$ 54,000
Employee benefits	3,700
Transportation and communication	4,000
Services	695,800
Supplies and equipment	1,000
	<u>758,500</u>
Total for Energy Policy Program	<u><u>\$2,200,000</u></u>

THE ESTIMATES, 1976-77

XVIII. — MINISTRY OF ENERGY — Continued

<u>VOTE and Item</u>	<u>1976-77 Estimates</u>	<u>PROGRAM AND ACTIVITIES</u>	<u>1975-76 Estimates</u>	<u>1974-75 Actual</u>	<u>1974-75 Estimates</u>
	\$		\$	\$	\$
1803		ONTARIO ENERGY BOARD PROGRAM			
1	<u>1,192,000</u>	Ontario Energy Board	<u>1,153,000</u>	<u>1,019,587</u>	<u>1,020,000</u>
	<u>1,192,000</u>	Total for Ontario Energy Board	<u>1,153,000</u>	<u>1,019,587</u>	<u>1,020,000</u>

Program description:

Following public hearings, the Board approves and fixes rates for the sale, transmission, distribution and storage of natural gas; reports on proposed increases in electric power rates; grants leave to expropriate land and construct pipelines; and approves municipal gas franchise agreements.

— NOTES —

<u>VOTE and Item</u>	<u>1976-77 Estimates</u>	<u>PROGRAM AND ACTIVITIES</u>	<u>1975-76 Estimates</u>	<u>1974-75 Actual</u>	<u>1974-75 Estimates</u>
	\$		\$	\$	\$
1804		ONTARIO ENERGY CORPORATION			
1	<u>327,000</u>	Ontario Energy Corporation	<u>226,000</u>	<u>100,000,000</u>	<u>—</u>
	<u>327,000</u>	Total for Ontario Energy Corporation	<u>226,000</u>	<u>100,000,000</u>	<u>—</u>

Program description:

To enhance the availability of energy in Ontario by stimulating resources exploration and development and expanding production capability throughout Canada or elsewhere. To encourage investment in energy projects and the effective use of financial, human and other resources in energy projects. To encourage development of processes and equipment which avoid wasteful use of energy and minimize environmental damage. To improve the security of energy supply to Ontario through acquisition, participation, guarantee and long-term commitment of resources.

XVIII. — MINISTRY OF ENERGY — Concluded

STANDARD ACCOUNTS CLASSIFICATION

Ontario Energy Board

Salaries and wages	\$ 565,400
Employee benefits	72,500
Transportation and communication	23,000
Services	517,300
Supplies and equipment	13,800

Total for Ontario Energy Board Program 1,192,000

— NOTES —

STANDARD ACCOUNTS CLASSIFICATION

Ontario Energy Corporation

Salaries and wages	\$ 12,000
Employee benefits	300
Transportation and communication	15,700
Services	293,000
Supplies and equipment	5,000

Disbursements

Investment in the Corporation 1,000

Total for Ontario Energy Corporation \$ 327,000

MINISTRY TOTAL \$4,242,000



Office of the
Minister

Ministry of
Energy

416/965-4286

Queen's Park
Toronto Ontario

June 14th, 1976

Mr. R.B. Taylor
Chairman
Ontario Hydro
700 University Avenue
Toronto
Ontario M5G 1X6

Dear Mr. Taylor

ANTI-INFLATION GUIDELINES
APPLICABLE TO BULK POWER RATES

The Government has developed guidelines it expects Ontario Hydro to follow, in order to demonstrate compliance with the spirit and intent of the Anti-Inflation Program, in preparing its 1977 bulk power rate proposal.

As you are aware Ontario Hydro's bulk power rates are not subject to review by the federal Anti-Inflation Board, but remain a provincial responsibility. The Ontario Energy Board has the responsibility to determine whether Hydro has shown that its bulk power rate proposals for 1977 conform, in the manner indicated by the Government, to the spirit and intent of the national Anti-Inflation Program.

To indicate compliance with the spirit and intent of the Anti-Inflation Program the following criteria shall be applied:

- (1) The Ontario Government expects that Ontario Hydro's forecast of the costs of providing service for 1977 will be based on known changes, or changes that can be expected to occur within the period for which Ontario Hydro normally sets prices in advance and that can be foreseen with a reasonable degree of assurance.

Mr. R. B. Taylor

June 14, 1976

- (2) The maintenance of Ontario Hydro's financial integrity in 1977 and subsequent years, and its continuing ability to attract capital at reasonable rates to provide service during those years, should be considered as matters of overriding importance with respect to the strict application of other criteria specified for use in determining allowable net income.
- (3) Subject to item (2), the allowable net profit margin attributable to bulk power for 1977 shall be such that it results in achieving 85 per cent of the net profit margin experienced for the period 1970 through 1974. The net profit margin for the period 1970 through 1974 shall be determined by dividing the total net income attributable to bulk power sales for that period, including secondary sales, by the total revenue for bulk power sales for the period.

The federal government, at the time of its recent budget, announced changes in the Anti-Inflation Regulations and stated that firms may have the option of applying a "minimum rate of return" rule, the details of which are to be outlined shortly. If you deem it more appropriate, for purposes of demonstrating that the 1977 bulk power rate proposal complies with the spirit and intent of the Anti-Inflation Program, to substitute the minimum rate of return rule for the net margin test, you should do so.

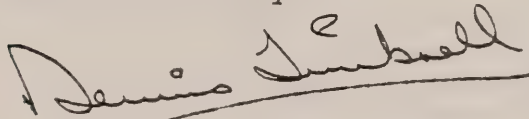
To compute the allowable net income referred to in the net margin test as defined in (3), or to apply the minimum rate of return rule, it shall be assumed that the costs allowable are those costs forecasted by Ontario Hydro in accordance with its usual forecasting practices as reasonably and prudently to be incurred, both as to purpose and amount, to provide service for 1977.

Mr. R. B. Taylor

June 14, 1976

Hydro should, by June 30th, 1976, supply whatever supporting exhibits it feels necessary for the Ontario Energy Board to undertake its review. If, after I have referred your proposal to the Ontario Energy Board, any supplemental information should be requested, I would appreciate your providing such material directly to the Ontario Energy Board.

Yours sincerely

A handwritten signature in dark ink, appearing to read "Dennis R. Timbrell", written over a horizontal line.

Dennis R. Timbrell
Minister of Energy



21131

APPENDIX IV

The Honourable Dennis R. Timbrell

Office of the
Treasurer
Ontario

Ministry of Treasury
Economics and
Intergovernmental
Affairs

416/963-6361

RECEIVED
JAN 20 1977
First Building
Queen's Park
MINISTRY OF ENERGY
Toronto Ontario

January 22, 1976

Dear Mr Chairman -

During our Treasury, Energy and Hydro discussions the need for longer term projections of the Province's public market borrowing levels was voiced. You will appreciate the government formulates budget strategy in a climate where responsiveness to the very legitimate needs of citizens, to changing economic conditions and to federal initiatives are paramount. In the past this responsiveness has not produced any dramatic or chaotic swings in underlying budget philosophy and it should be entirely possible for Ontario Hydro to plan its finance strategies on the basis of trends in the government's market utilization. I have indicated, for example, that it would be my determination to reduce borrowing activity to the level of our internal sources as soon as is practical, in say three years. For the upcoming fiscal year public market borrowings will not likely exceed the \$500 million level. While it is my present intention to bring public borrowings further in line beyond next year, for longer term planning purposes, Hydro should anticipate the need for government flexibility to the \$500 million per year level of public financing for the subsequent two years; i.e., 1977 and 1978.

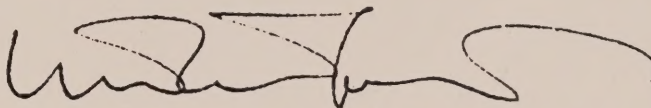
To assist in longer term planning process our advisors and officials are continuing to refine their projections of capital availability, a difficult exercise. Currently we are projecting yearly availability for both issuers from capital markets as about \$2 billion in each of 1976-77-78. We cannot be more precise than that. I believe in the assessment of these projections, however, we share a number of responsibilities, not the least of which is the maintenance of our current credit status. In my opinion, it is critical regardless of the substantial increase in borrowing capacity that occurred in 1975, that we adopt a prudent approach to the level of debt creation. Certainly Hydro has shifted to a much higher rate of growth in a climate where investor preference leans toward shorter maturities. The longer range implications of this are obvious. In addition, I am concerned that the relationship between this substantial one year increase and its effect on subsequent availability is not well understood and may lead to an overly optimistic view of our ability to expand debt at a rate in excess of historic market growth or of our traditional market share. In any event the wisdom of creating situations where year to year we must borrow to the limit of capacity without viable alternate sources of funds should be challenged.

The foregoing financial constraints on the Province and Ontario Hydro, in my view, will limit the expansion of the load capacity in the next half decade. If we expand the electrical system in a manner which takes risks with our financial standing we shall be contributing to inflation and we shall also be prejudicing our medium term capacity to finance the provision of public services at the provincial and local levels.

I appreciate that the long-term electrical demand forecast by Ontario Hydro shows a trend of about 7 per cent a year. After examining the Province's and Hydro's financing capacity, you may decide that it is necessary to meet and discuss with the Minister of Energy the development of energy policies which would permit the expansion of load capacity in the range of say 5-6 per cent per annum.

I trust that the foregoing opinions are the information which you require from me. I am sending a copy of this letter to the Honourable Dennis Timbrell, Minister of Energy. I have no objection to its being tabled at the upcoming meetings of the Select Committee.

Yours sincerely,



W. Darcy McKeough,
Treasurer of Ontario.

c.c. the Honourable Dennis Timbrell✓

Mr. R. B. Taylor,
Chairman,
Ontario Hydro,
700 University Ave.,
H-19, A-1
Toronto, Ontario
MSG 1X6

